

FDIC State Profile

Summer 2005

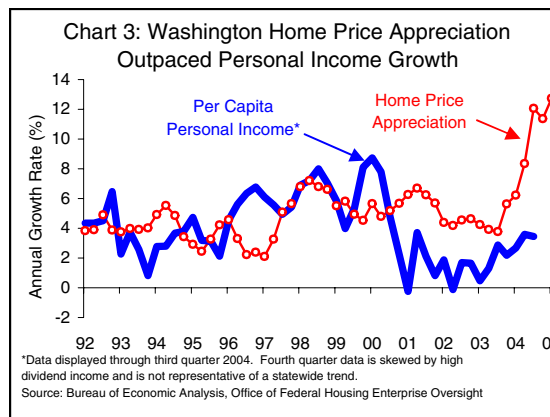
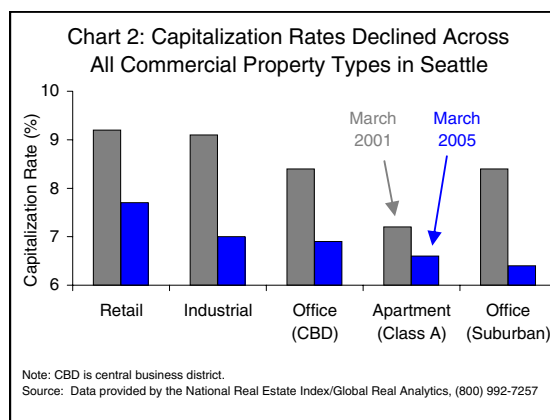
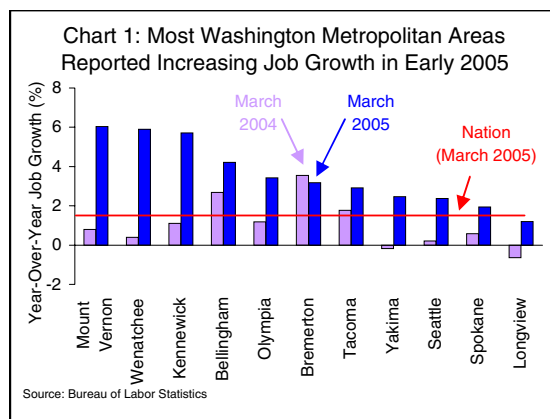
Washington

Washington job growth more than tripled during the year ending first quarter 2005; expectations are for continued strength.¹

- Service-providing industries accounted for the majority of new jobs in the state, particularly in the business and health services sectors.
- The state's important durable goods manufacturing sector reported its third straight quarter of job gains, after nearly six years of job losses. Although the sector accounted for only about 10 percent of all new jobs in the state, the trend is a clear indication that the Washington economy is recovering. The state's aerospace and software sectors are forecast to report gains through 2007.²
- While the majority of new jobs were created in the **Seattle** area, job gains were widespread throughout most metropolitan areas of the state (See Chart 1).
- The Department of Defense's Base Realignment and Closure recommendations included 12 of the state's military facilities, eight of which could experience a net loss in staff. The **Seattle, Tacoma, Portland, and Spokane** metropolitan areas are expected to experience a net loss of jobs, but the state as a whole will likely experience a net job gain primarily because of nearly 1,500 new positions at the Bremerton Naval Station.

Commercial real estate (CRE) fundamentals improved, but institution exposures remain high.

- Seattle office vacancies and rents remained relatively stable between first quarter 2004 and first quarter 2005, but could be pressured by a relatively large addition of new space downtown in late 2005 or early 2006.
- The Seattle industrial vacancy rate improved, in part as a result of increased trade activity, but industrial property rents remained under pressure.
- The recovering economy in the Seattle area also contributed to improving conditions in the multi-family and retail submarkets.



¹Forecast sources are Washington State Economic and Revenue Forecast Council and Economy.com.

²Forecast source is the Washington State Economic Council.

State Profile

- Declining capitalization rates over the past few years have buoyed commercial property values in Seattle (See Chart 2). However, increases in interest rates could pressure capitalization rates and property values prospectively.
- CRE loan exposure continued to rise at Seattle-based institutions; the median CRE to Tier 1 capital ratio ranked 29th out of 225 metropolitan areas nationwide. However, CRE past-due levels declined, likely reflecting the continued improvement in the Seattle market fundamentals and recent strong loan growth.

Home price appreciation and construction loan growth warrant monitoring.

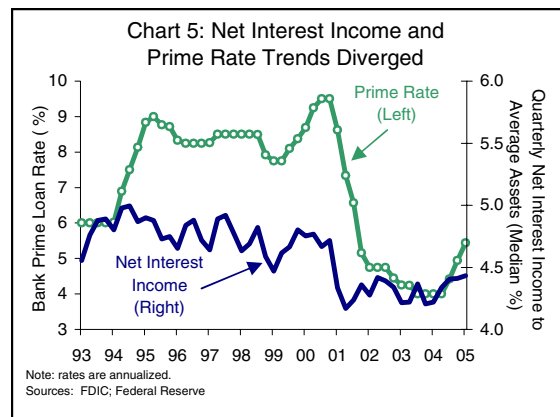
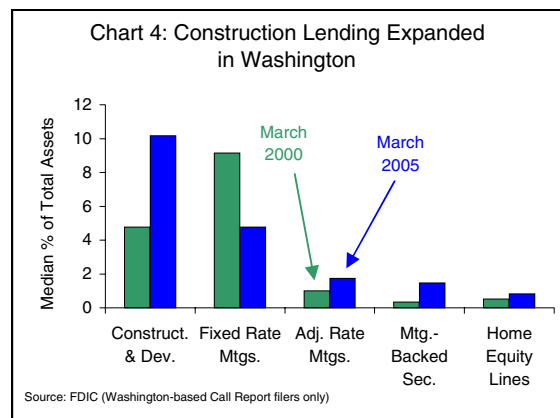
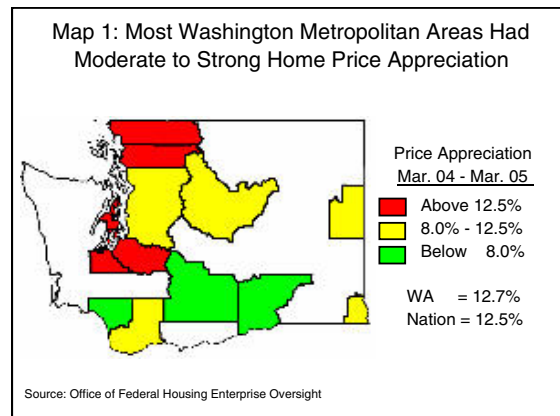
- Home values in Washington rose 12.7 percent during the year ending first quarter 2005, and outpaced the national rate of growth for the first time since mid-year 1999.
- The gap between personal income growth and home price appreciation has widened recently a situation that may suggest declining housing affordability for some consumers in the state (See Chart 3).
- Most Washington metropolitan areas had relatively strong home price appreciation in early 2005 (See Map 1).
- Improved economic conditions and robust home price appreciation contributed to rapid loan growth among Washington-based institutions; median loan growth was the ninth fastest in the nation through March 31, 2005.
- The construction and development (C&D) portfolio, which typically includes a high percentage of residential real estate related loans, and home equity lines of credit (HELOC) accounted for the bulk of the growth (See Chart 4). As a result, Washington-based institutions reported the sixth highest C&D exposure in the nation as of March 31, 2005.

Earnings remained on par with the nation.

- The 1.02 percent return on average assets (ROA) for the state's insured institutions during first quarter was similar to the performance of the nation's average. Overall earnings performance was relatively unchanged compared with the first three months of 2004 as net interest margin expansion offset increases in overhead.
- Washington-based institutions reported the highest level of loans relative to assets of any state in the nation, which, combined with a higher-yielding commercial lending focus, allowed institutions to increase net interest income as the prime rate increased (See Chart 5).

Delinquencies among Washington-based institutions were at their lowest level in a decade.

- Strong job growth, relatively low interest rates, and fast-growing, unseasoned loan portfolios, all likely contributed to improved asset quality across all major loan categories.
- The commercial and industrial portfolio continued to report the greatest delinquencies of all loan categories (albeit still a low 0.80 percent), possibly reflecting a continued hangover from the 2001 recession, which was especially severe in Washington.



Washington at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.3%	0.7%	0.1%	-2.5%	0.9%
Manufacturing (10%)	1.7%	-3.7%	-7.2%	-9.8%	-2.3%
Other (non-manufacturing) Goods-Producing (6%)	4.5%	3.7%	0.8%	-5.9%	1.7%
Private Service-Producing (65%)	2.6%	1.3%	1.0%	-2.2%	0.5%
Government (19%)	0.7%	0.3%	1.4%	2.3%	4.2%
Unemployment Rate (% of labor force)	5.4	6.7	7.3	7.4	5.5

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	3.7%	1.6%	3.2%	1.1%
Single-Family Home Permits	20.6%	-3.6%	22.7%	-6.0%	10.3%
Multifamily Building Permits	17.7%	5.9%	12.4%	-38.4%	-19.4%
Existing Home Sales	13.9%	5.5%	6.1%	8.0%	4.0%
Home Price Index	12.7%	6.2%	4.3%	4.4%	6.3%
Bankruptcy Filings per 1000 people (quarterly level)	1.56	1.67	1.73	1.62	1.60

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	97	99	101	99	99
Total Assets (in millions)	53,065	80,863	75,007	69,230	74,947
New Institutions (# < 3 years)	7	6	10	11	16
Subchapter S Institutions	7	7	5	5	5

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.76	1.08	1.42	1.75	1.28
ALLL/Total Loans (median %)	1.32	1.36	1.38	1.25	1.14
ALLL/Noncurrent Loans (median multiple)	3.09	2.11	1.79	1.55	1.87
Net Loan Losses / Total Loans (median %)	0.10	0.11	0.10	0.13	0.11

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	10.05	10.00	9.42	9.40	10.09
Return on Assets (median %)	1.03	1.02	1.03	0.96	0.95
Pretax Return on Assets (median %)	1.43	1.42	1.53	1.41	1.35
Net Interest Margin (median %)	5.19	5.06	5.07	5.06	5.06
Yield on Earning Assets (median %)	7.68	7.51	7.74	7.89	8.27
Cost of Funding Earning Assets (median %)	2.60	2.61	2.82	2.94	3.26
Provisions to Avg. Assets (median %)	0.26	0.24	0.23	0.28	0.25
Noninterest Income to Avg. Assets (median %)	0.61	0.63	0.66	0.62	0.62
Overhead to Avg. Assets (median %)	3.91	3.72	3.82	3.77	3.73

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	76.4	73.6	72.4	75.5	75.6
Noncore Funding to Assets (median %)	23.1	20.8	21.6	22.1	21.9
Long-term Assets to Assets (median %, call filers)	12.2	15.6	13.3	14.4	9.9
Brokered Deposits (number of institutions)	43	38	33	30	21
Brokered Deposits to Assets (median % for those above)	3.5	2.8	3.0	3.4	2.7

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	117.4	119.9	113.2	136.9	120.4
Commercial Real Estate	402.2	349.5	338.4	321.0	274.7
Construction & Development	93.4	70.4	71.6	73.3	60.4
Multifamily Residential Real Estate	24.0	24.6	18.0	19.8	17.0
Nonresidential Real Estate	244.7	237.3	214.1	199.5	161.1
Residential Real Estate	91.4	117.0	120.2	130.5	137.3
Consumer	21.8	23.8	24.9	28.2	34.0
Agriculture	3.0	1.9	1.7	1.1	3.9

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Seattle-Tacoma-Bellevue, WA	71	56,990	< \$250 million	56 (57.7%)
Spokane, WA	16	4,806	\$250 million to \$1 billion	30 (30.9%)
Bellingham, WA	14	2,342	\$1 billion to \$10 billion	11 (11.3%)
Olympia, WA	18	2,060	> \$10 billion	0 (0%)
Yakima, WA	12	2,016		